Financial Markets

Irving Trust

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The bond markets came under renewed downward pressure this week. There was no particularly bad news; the economic results that did come out simply reinforced the recent indications that the economy managed to register positive growth in the fourth quarter of 1979. In December, industrial production was up at a 3.6% annual rate, and housing starts inched marginally higher. On Friday, the Commerce Department made it official (subject to revision of course) by announcing its preliminary estimate that fourth-quarter real GNP was up at a 1.4% annual rate. Market participants will just have to wait a little longer for signs of the long-awaited economic recession, along with its potential for easing inflation and producing a cyclical downturn in interest rates.

The weekly money statistics proved discouraging for the markets too. On Wednesday, adjusted demand deposits at large commercial banks, which constitute a sizable portion of M_1 balances, were down sharply for the week of January 9. Market participants who use adjusted deposits as an indicator of money supply movements saw the news as evidence of a large M_1 drop, which contributed to a brief rally in the markets. But Thursday's money numbers revealed only a $700 million decline in M_1, and M_2 was up $1.1 billion.

Following the news on housing and money, government bond prices pushed lower with the 10 3/8's of 2009 testing their previous lows, and yielding 10.60%. The government market may also be looking ahead to a buildup in supply for the next few months. The Treasury will be financing a Federal deficit estimated at about $25 billion for the first quarter, and market offerings should total about $15 billion, half again as much as last year's first quarter.

Supply weighed heavily in the corporate bond market too. Southwestern Bell's hefty $450 million offering of AAA bonds got a subdued investor reception though it carried an 11 3/8% coupon and was initially priced to yield a record 11.47%. When released to trade in the market, it promptly dropped three points, which left it yielding 11.75%. Looking further ahead, the offering was but the first in a parade of telephone issues that will total almost $5 billion before the year is out, up 50% from the industry's borrowing pace last year. Industrial offerings will be up too. The cyclical erosion in corporate liquidity that began in 1977 has pushed liquidity ratios to levels that are currently near or below their 1974 lows. Pressure is therefore building on many corporate treasurers to begin issuing long-term debt in order to fund the large buildup in short-term borrowings of the past few years. Such prospects for ample supplies of new bonds suggest that, until there is some persuasive evidence that inflation is heading down, it is going to take very generous yields to entice investors into longer-term investments.

Glenn C. Picou

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Money Market Rates

	1/18/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)	15.25%	11.75%
Short-term loans to substantial depositors with highest credit rating	15.25%		
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.63	14.07	10.00
Repurchase Agreements	12.50	12.50	9.70
U.S. Treasury Issues - Yields			
Bills			
3 months	12.55	12.15	9.75
6 months	12.76	12.55	10.15
1 year	11.96	11.80	10.45
Coupons			
2 years	11.47	11.27	9.94
4 years	10.72	10.62	9.36
7 years	10.75	10.59	9.24
10 years	10.78	10.61	9.14
Long Bond	10.54	10.31	8.97
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.30	13.30	10.20
3 months	13.45	13.35	10.55
6 months	13.45	13.37	11.14
1 year	12.75	12.55	10.95
Bankers' Acceptances			
1 month	13.35	13.15	10.00
3 months	13.55	13.35	10.27
6 months	13.55	13.40	11.08
Eurodollar Deposits			
1 month	14.06	14.00	10.44
2 months	14.13	14.13	10.69
3 months	14.13	14.19	11.06
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.88	12.25	6.00
1 month	13.00	12.75	10.00
3 months	11.75	12.00	9.88
Bank Holding Companies			
1 month	13.00	13.00	10.00
Dealer Placed:			
3 months	12.88	13.00	10.00
New Aa Corporate Utility Bond	12.05	11.88	9.55
Tax Exempt			
6 month Project Notes	5.65	5.75	5.30
12 month Project Notes	N/A	N/A	5.60
AAA Municipal Bond	7.00	6.70	5.95

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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